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# Message Text

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ACTION EA-12

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04
OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-07 CEA-01 DOE-15 SOE-02 DODE-00 PM-05 H-02
L-03 PA-02 /144 W
----------056565 181236Z /14
R 181133Z APR 78
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC 7192
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME

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PASS TREASURY AND FEDERAL RESERVE BOARD

USEEC

USOECD ALSO FOR EMBASSY

E.O. 11652: N/A
TAGS: EFIN, JA
SUBJECT: BURNS' LECTURES ON DOLLAR AND INFLATION

1. SUMMARY: FOLLOWING IS ARTICLE APPEARING IN APRIL 18 EDITION OF ENGLISH LANGUAGE WEEKLY, JAPAN ECONOMIC JOURNAL, SUMMARIZING TWO SPEECHES GIVEN IN JAPAN ON APRIL 11 AND APRIL 13 BY FORMER FEDERAL RESERVE CHAIRMAN ARTHUR BURNS. NO ENGLISH TEXT OF THE SPEECHES WAS RELEASED. BASED ON NOTES TAKEN BY EMBOFF ATTENDING APRIL 11 TALK, THE SUMMARY OF BURNS' LECTURE ON THE INTERNATIONAL ROLE OF THE DOLLAR APPEARS FAIRLY ACCURATE AND COMPLETE. END UNCLASSIFIED

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SUMMARY.

2. BEGIN TEXT: ARTHUR F. BURNS, FORMER CHAIRMAN OF THE U.S. FEDERAL RESERVE BOARD, STERNLY WARNED LAST WEEK OF GRAVE DANGERS POSED TO THE FREE ENTERPRISE SYSTEM BY UNCONTROLLED INFLATION.

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AND HE CHIDED THE GOVTS OF THE INDUSTRIALIZED COUNTRIES FOR THE PRIME ROLE THEIR CONTINUED DEFICIT BUDGETS PLAY IN FEEDING INFLATION.

HIS REMARKS CAME IN THE FIRST MAJOR PUBLIC STATEMENTS BURNS HAS MADE SINCE LEAVING THE FEDERAL RESERVE BOARD AFTER PRESIDENT CARTER REPLACED HIM AS CHAIRMAN. HE WAS IN JAPAN AS THE GUEST OF THE NIHON KEIZAI SHIMBUN NEWSPAPER FOR A SERIES OF LECTURES AND PUBLIC APPEARANCES LAST WEEK IN TOKYO AND OSAKA IN CELEBRATION OF THE 100TH ANNIVERSARY OF THE TOKYO AND OSAKA STOCK EXCHANGES.

BURNS TOLD A SYMPOSIUM IN TOKYO ON THURS THAT"THE PER-SISTENCE OF INFLATION IS SAPPING THE STRENGTH OF (THE INDUSTRIALIZED COUNTRIES') ECONOMIES AND . . . IT THEREFORE POSES AN INCREASINGLY SERIOUS THREAT TO THE SUR-VIAL OF THE FREE ENTERPRISE SYSTEM."

EARLIER IN THE WEEK BURNS CALLED ON THE CARTER ADMINISTRA-TION TO USE AMERICA'S "ENORMOUS" FINANCIAL RESOURCES TO INTERVENE MASSIVELY IF NECESSARY IN THE FOREX MARKETS AND TO DEFEND THE INTEGRITY OF THE U.S. DOLLAR AS THE PRIMARY WORLD CURRENCY. HOWEVER, SUCH A DEFENSE -- BACKED BY RESERVES OF SOME $50 BIL IN GOLD, SPECIAL DRAWING RIGHTS, SOME $7 BIL AVAILABLE FROM THE INTERNATIONAL MONETARY FUND AND BILLIONS IN TREASURY SECURITIES DENOMINATED IN CUR-UNCLASSIFIED



RENCIES OTHER THAN THE DOLLAR -- COULD BE ONLY A "BRIDGING ACTION" UNTIL THE BASIC ILLS OF THE DOLLAR ARE CURED BY CHANGES IN U.S. POLICY.

"IF NEED BE, THE U.S. COULD READILY MOBILIZE VAST RESOURCES TO CURB FURTHER DEPRECIATION OF THE DOLLAR WHILE THE BASIC CORRECTIVE STEPS GRADUALLY WORK OUT THEIR BENEFICIAL EFFECTS," BURNS DECLARED.

FIRST AMONG THESE FUNDAMENTAL PROBLEMS, BURNS SAID, IS THE HUGE AND RAPIDLY GROWING TRADE DEFICIT THE U.S. IS RUNNING WITH NOT ONLY THE OIL-PRODUCING COUNTRIES BUT WITH MUCH OF THE REST OF THE WORLD. EVEN WHERE THE U.S. RUNS A SURPLUS, AS IN WESTERN EUROPE, THE TREND IS TOWARD A SMALLER U.S. ADVANTAGE, HE SAID.

IN ADDRESSING A QUESTION OF GREAT CONCERN TO HIS JAPANESE LISTENERS, BURNS SAID THAT THE YEN, WHICH HAS APPRECIATED ENORMOUSLY AGAINST THE U.S. DOLLAR IN THE PAST YEAR, MAY NOW BE OVERVALUED.

"MY OWN IMPRESSION IS THAT FOR QUITE A LONG WHILE THE YEN

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WAS UNDERVALUED," HE TOLD ABOUT 600 PERSONS AT HIS FIRST APPEARANCE AT THE NIHON KEIZAI SHIMBUN'S NIKKEI HALL IN TOKYO. "AND NOW PERHAPS, WE'VE ENTERED A ZONE WHERE THE YEN MAY BE OVERVALUED," HE SAID.
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HOWEVER, BURNS ACKNOWLEDGED THAT THERE IS NO CLEARCUT, SCIENTIFIC ANSWER TO WHAT IS THE VALUE OF THE YEN. THE IMPORTANT THING, HE SAID, IS FOR A RETURN TO STABILITY IN THE MONEY MARKETS "SO ALL OF US CAN HAVE A BETTER BASIS FOR JUDGING ITS VALUE AGAINST OTHER CURRENCIES."
THIS DEPENDS ON A RESTORATION OF CONFIDENCE IN THE

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U.S. DOLLAR BY BOTH SUPPORT IN THE CURRENCY MARKETS AND BASIC CHANGES IN U.S. POLICY, HE SAID.

TO CUT THE AMERICAN TRADE IMBALANCE AND THE SUBSEQUENT EROSION OF FAITH IN THE DOLLAR, BURNS ENUMERATED FOUR BASIC POLICY CHANGES, THE FIRST OF WHICH, HE SAID, IS THE IMPLEMENTATION OF AN ENERGY POLICY THAT PROMISES BOTH TO CONSERVE OIL IN THE U.S. AND TO EXPLOIT "NEW AND SUBSTANTIAL ENERGY SOURCES."

ALSO, ADOPTION OF AN ANTI-INFLATION PROGRAM BY THE U.S. THAT "CONVINCINGLY PROMISES COMPETITIVENESS OF U.S.

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PRODUCTS" IN WORLD MARKETS. IN ANSWER TO A QUESTION,
BURNS SAID THAT CONTINUED DEFICIT SPENDING BY THE USG
WAS A PRIMARY CAUSE OF THE INFLATION THAT MAKES
AMERICAN GOODS UNCOMPETITIVE.

A THIRD POLICY CHANGE TO REDUCE THE TRADE IMBALANCE,
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BURNS SAID, IS A TAX POLICY THAT WOULD ENCOURAGE INVEST-
MENT -- INCLUDING THAT OF FOREIGNERS -- IN AMERICAN BUSI-
NESS AND SECURITIES.

HIS FOURTH PATH TO RIGHTING THE U.S. TRADE IMBALANCE,
BURNS SAID, WOULD BE FASTER ECONOMIC GROWTH OUTSIDE THE U.S.
TO INCREASE PURCHASES OF U.S. PRODUCTS.

"OBVIOUSLY THE FOURTH DEPENDS ON THE ECONOMIC PERFORMANCE
OF WESTERN EUROPE, JAPAN AND OTHERS," BURNS ACKNOWLEDGED.
"BUT THE FIRST THREE ARE ENTIRELY WITHIN THE POWER OF
THE U.S." AND, HE SAID, THEY ALL SERVE THE INTERESTS OF
THE U.S. AS WELL AS RESTORING CONFIDENCE IN THE DOLLAR AND
THUS RETURNING STABILITY TO WORLD MONEY MARKETS AND TRADE.

BURNS SAID THE CARTER ADMINISTRATION'S ACTIONS BOTH IN
DEFENSE OF THE DOLLAR IN MONEY MARKETS AND IN MAKING THE
FUNDAMENTAL CHANGES NEEDED HAVE BEEN INSUFFICIENT. BUT, HE
SAID THAT "THE AMERICAN GOVT HAS NOT BEEN PRACTICING
BENIGN NEGLECT" OF THE DOLLAR, AND HAS TAKEN SEVERAL STEPS
IN DEFENSE OF THE DOLLAR THAT HAVE SLOWED BUT NOT STOPPED
ITS DECLINE.
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DESPITE THE U.S. RESPONSIBILITIES TO THE WORLD TO MAINTAIN
A STABLE DOLLAR, "IT CANNOT BE ACHIEVED BY THE U.S. ALONE"
BURNS SAID. HE CALLED FOR "STERN FINANCIAL DISCIPLINE"
TO CURB INFLATION FROM COUNTRIES WHOSE CURRENCIES HAVE
BEEN "UNDER A CLOUD" BECAUSE OF THE COUNTRIES' WEAK
TRADING POSITIONS.

BUT TO FIRMLY ENCOURAGE GREATER FISCAL RESPONSIBILITY BY
THESE COUNTRIES, BURNS CALLED FOR "ENLARGED AUTHORITY OF
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THE IMF IN IMPOSING RESTRAINTS ON NATIONAL GOVTS."
THE FORMER FED CHAIRMAN POINTED TO RECENT EXAMPLES OF
ITALY AND BRITAIN, "AFTER SEARCHING FOR ALL SORTS OF

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EASIER WAYS," FINALLY ACCEPTING THE STRINGENT TERMS OF THE IMF FOR BORROWING.

THIS, HE SAID, ADDED IMMEASURABLY TO THE IMF'S PRESTIGE. HE PREDICTED THAT "A RULE OF LAW" EVENTUALLY WILL PREVAIL IN THE MONETARY AFFAIRS OF NATIONS AND URGED THE U.S. AND OTHERS TO SUPPORT A GROWING ROLE IN THAT NEW ORDER FOR THE IMF.

ON THE DAY OF BURNS' FINAL LECTURE IN OSAKA FRIDAY, THE JAPANESE GOVT ANNOUNCED HE HAD BEEN AWARDED THE ORDER OF THE RISING SUN, FIRST CLASS, WITH STAR AND RIBBON FOR HIS CONTRIBUTIONS TO RELATIONS BETWEEN THE U.S. AND JAPAN, HIS CONSISTENT OPPOSITION TO PROTECTIONISM AND FOR HIS FFORTS TO ACHIEVE STABILITY OF THE DOLLAR AND THE YEN.

THE AWARD IS THE HIGHEST GRANTED A FOREIGNER BY JAPAN AND NORMALLY IS CONFINED TO PRESENT AND FORMER HEADS OF STATE. THE LAST FINANCIAL FIGURE TO RECEIVE THE AWARD WAS JOSEPH DODGE, THE AMERICAN INDUSTRIALIST AND ARCHITECT OF THE DODGE PLAN FOR REHABILITATION OF THE JAPANESE ECONOMY DURING THE AMERICAN OCCUPATION WHO WAS SO HONORED IN 1962. END TEXT. MANSFIELD

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# Message Attributes

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